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NOTES ON ANWAR SHAIKH: CAPITALISM: COMPETITION, CONFLICT, CRISES

ECONOFICTION ACCUMULATION, CAPITAL, CRISES, MARX, MARXISM, PROFITRATE,
TECHNOLOGY

The systemic order of the capital economy is generated in and by continuous disorder: just as order cannot be equated with the optimum of regularity, disorder cannot be identified with the absence of order or with pure chaos. According to Anwar Shaikh, with the terms of Marxist economy, a wide range of economic phenomena can be explained by a small set of operative principles, which means that current economic events revolve around ever-moving centres of

gravity that are *sui generis* those of the logic of capital and total capital. (Shaikh 2016: 5) Shaikh, who uses here terms of relativity theory, describes these movements as the systemic mode of turbulent regulation, whose characteristic expression takes the form of a repetition of short, medium and long-term patterns.³⁷ Not only is there a continuous adaptation to averages and equilibria by changing from one state of equilibrium to another, but the movements of capital are in the last instance in a process of imbalance, which in turn are always bound to changing gravitational centres. This includes the system's permanent capacity to adapt to disturbances and extreme turbulences, and, last but not least, to cyclically occurring crisis by raising critical thresholds, expanding the scope for dealing with instability and keeping normalisation processes flexible. (cf. Bröckling 2017: 128) The resulting economic growth is not only shown in terms of size, but also in the densification and the increase of connections.

If profit is the central motive of capital, then the profit rate is its most important measure (at least for industrial capital). And if growth is an intrinsic aspect of the reproduction of capital, then the flow of money-capital takes place in the most profitable sectors, i.e. any new capital tends to flow faster into those sectors where the profit rates are higher than average, and it flows more slowly into those sectors where the profit rates are lower than average. This should be understood not only as an aspect of the entry and exit of companies into or out of markets, but also as a process of acceleration and deceleration of the capital flows. In the more productive sectors, the faster influx of capital will, over time, lead to a higher supply of goods, which will tend to bring prices and therefore profits down again, while the opposite will be true in the decelerated sectors. Thus, the realisation of extra profits is also reflected in their disappearance, while the tendency to equalise profit rates streams across all sectors. This is part of an emergent process (which is not consciously intended by any economic actor), whereby profit rates can undercut and exceed the already fluctuating centres of gravity in order to approach the average again in certain patterns (turbulent arbitrage within the framework of total capital). However, the equalisation of profit rates in no way refers to a state of equilibrium, but rather implies repetitive and at the same time turbulent movements of arbitrage around the centres of gravity of capital, which themselves are constantly changing. (Shaikh 2016: 260) The average profit rate is thus not to be understood as a uniform profit rate, but as the result of a continuous distribution of

profits around the average.⁴¹ This is a result of price formation, not of production. Insofar as these periodic movements of companies, with their upswing and downswing and their circulation and circling around changing midpoints, which are related to the gravitation centres of capital, are driven by the calculation, prognosis and discounting of the profit rates of future production processes, the relevant profit rates that balance out over certain periods of time are those that relate to new investments. (Ibid.: 254), The incremental profit rates in turn fluctuate around the general profit rates and thus generate new average profit rates, which also in turn fluctuate. Shaikh, in his recently published study *Capitalism: Competition, Conflict Crises*, emphasises that here, however, the growth rates of the profit masses (and thus the speed), and not only the profit rates, must be considered. (Ibid.: 593) Accumulation refers to the transformation of surplus value into capital for the purpose of its expansion and exploitation. The (expected) profit rate of companies is central to capital accumulation because profit is the very purpose of all capitalist

investment. Therefore the profit rate together with the profit mass (and their relation) must be considered the decisive measure of the success of a company. The high-frequency trade with securities and currencies has shown that even with low profit rates or profit margins enormously high, profit masses can be realised if the moved sums of money capital are big enough. If the profit mass should be further increased, a decreasing profit rate requires an ever larger capital inflow and new forms of financing. The concentration of capital and its globalisation, as well as the strong influence of the financial sector on accumulation, have here in part their rationale.

Turbulent regulation and the recurrence of patterns are considered as decisive gravitational tendencies of the economic system. (Shaikh 2016: 5) Economic macro analysis is first and foremost about the determination of commodity prices, profit rates, wage rates, interest rates and exchange rates. (Ibid.: 1946ff.) These processes have two tendencies: 1.) Balancing-out tendencies, which are characterised by the restless search of individual capitals for monetary advantages, whose unintended result consists precisely in the elimination of differences, which in turn motivates the pursuit again. While the average wage rate depends on productivity, profitability and on the class struggle between workers and capitalists, the average profit rate depends on wages, capital intensity and productivity. At the same time, the averages are the result of microeconomic projects and the interactions of individual capitals, whereby competition plays the decisive role. Shaikh subsumes both processes under the concept of real competition, whereby the profit motive plays the central role. (Ibid.: 6); 2.) Formative tendencies that determine the path around which the balancing-out movements fluctuate. The second set of gravitational tendencies comprises the turbulent macro dynamics of the system, including processes of growth and stagnation. Here again, the profit motive is the dominant factor that is ultimately responsible for the regulation of investment, growth, cycles, employment and inflation.

The centrality of the profit motive has several implications. 1.) A theory of profit and wages must be developed. 2.) The role of profitability in real competition must be determined, insofar as all aspects of companies are affected, leading to a theory of price, which is determined by competition, and to the theory of endogenous technological change. 3.) The expected rate of profit regulates investment and growth and also determines the relationship between aggregate demand and aggregate supply. (Ibid.: 6) The decisive factor here is not the actual profit rate of a company, but the regulating profit rate within an industry sector and the profit rate on future investment. Finally, the investment is driven by the difference between profit rates and interest rates, whereby the interest rate is the benchmark for the investment.

The investment of a (industrial) company is determined by the expected net profitability, which is different from the current net profitability. (cf. Shaikh 2016: 607, et seq.) In a boom phase, the expected profitability will be higher than the current net profitability, and vice versa in a recession, so that the two rates will not only fluctuate closely around each other over long periods of time, but tend to balance each other out. Supply-demand ratios always remain related to this development of average profit rates.

In an expansive economic system the growth rate of nominal output increases when demand exceeds supply and at the same time the growth rate of the capital stock increases, output

exceeds capacity and capital flows faster into the financial sector if the current interest rate exceeds the “normal” interest rate. (Ibid.) These processes always take place within the framework of turbulent balancing movements, where in the short term, the relationship between supply and demand can strongly influence various movements, but in the long term, the relationships between capacity and output, between current and normal interest rates and between current and expected profit rates, are decisive. This fact synthesises Keynes’ remark that demand (the generation of purchasing power) can be relatively autonomous, with Marx’s thesis that capital accumulation is always dependent on net profitability and that expected profitability is always dependent on average profitability, and that current capacity utilization fluctuates around normal utilisation. The level of savings and investments (the savings rate is linked, but unequal to the investment rate) depends on the interest rate and the amount of output, whereas the interest rate is determined by the profit rate, according to Marx. (Ibid.) Even a temporary increase in the profit rate will increase the level of output and employment. This is the Marxist answer to Keynes’ theory of the multiplier. (Ibid.)

In these processes, the expectations of economic actors effect current prices (which influence the economic fundamentals), while those expectations are also subject to the movements of current prices and economic fundamentals. The current prices oscillate in a turbulent manner around values understood as centres of gravity. It is to be assumed that the future is not based on the stochastic reflection of the past, but is non-ergodic. (Ibid.: 446) Nevertheless, expectations can by no means autonomously generate economic reality; rather, the gravitationally oriented centres of capital, which are determined in the last instance by the movement of the general rate of profit (and the mass of profit), continue to function as the decisive regulators of current economic events, so that boom phases always end in recession, and vice versa.

In Marx’s simple macroeconomic model, the accumulation rate (growth rate of capital) is related to the expected net profit rate (expected profit rate minus interest rate), and the savings rate refers to the difference between investment and savings. In the short term, the interest rate will increase if the financial difference is positive, but in the long term, the financial situation of the companies will correlate in particular with the equalization of profit rates and the normal interest rate will correlate with the price level and the normal profit rate. Furthermore, bank credit offers the possibility that the expenses exceed the given income of a company, since banks can generate new purchasing power, so that investments grow faster than savings and consumption grows faster than income. For Shaikh, however, the profit rate remains the lynchpin of the profit-driven capital system, although the strategies of banks can massively influence the relationship between the expected and current profit rate, supply and demand, and output and capacity. (Ibid.: 626ff.) In 2009, net investment as part of the capital stock fell to its lowest level since the end of World War II and even the nominal capital stock showed a downward trend. Although there was a slight recovery thereafter, the level remains below the historical average and has fallen slightly since 2015.

Shaikh sums up the movement of an individual capital: competition is the war of all against all. (Ibid.: 333) The naming of competition as a war contains the implication that every competitive

enterprise has to worry about tactics, strategies and estimations of its investments also in the future, so that one can therefore neither assume a normal profit nor introduce interest purely as a part of the costs. The real competition between companies generates specific patterns and samples: the prices set by the different providers in the same industry roughly equalize – measured by the mobility of customers – and the profit rates related to new investments are also roughly equalized in the different industries – measured by the mobility of capital, which *sui generis* aims at higher profits. Both processes involve movements around a corresponding, common centre, while there is not only competition shaped by the movement of prices, but also competition based on power, which is carried out by companies in their function as political-financial actors, for example, by carrying out industrial espionage, the takeover other companies, the negotiation of special alliances with the state, poaching personnel, etc.

Companies are *sui generis* price-setting organisations, which must orient their prices with those of the price leaders in the sector. Extra profits generated in a sector stimulate the adaptation of the most efficient methods of technology by insiders and outsiders, while new companies tend to undercut average prices, thereby eliminating the extra profits in an industry. This competitive behaviour of companies also indicates that there are significant differences in the costs of each company. The companies with the highest productivity work with the most efficient technologies, although there is always a certain range of technologies in a sector. Changes in relative prices can usually be explained by changes in relative productivity, whereby the latter is stimulated by technological change. The necessity to sell commodities at a price independent of one's own current production costs requires the increase of productivity through technological innovation, with which more or cheaper products can be produced with the same amount of work.

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